

CUCAMONGA VALLEY
WATER DISTRICT
Rancho Cucamonga, California

04884

Single Audit Report on Federal Awards

Year ended June 30, 2008

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WATER DISTRICT

Single Audit Report on Federal Awards

Year ended June 30, 2008

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Board of Directors
Cucamonga Valley Water District
Rancho Cucamonga, California

**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Cucamonga Valley Water District ("District") as of and for the year ended June 30, 2008, and have issued our report thereon dated November 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, as reported in finding (08-2) in the accompanying schedule of findings and questioned cost.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is defined to be a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. Matters conforming to this definition are identified as finding (08-1) in the accompanying schedule of findings and questioned costs..

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management of the District, others within the District, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mayor Hoffmann McCann A.C.

Irvine, California
November 10, 2008



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Board of Directors
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AND ON
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the Cucamonga Valley Water District ("District") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular *A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the District as of and for the year ended June 30, 2008, and have issued our report thereon dated November 10, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the finance committee, management of the District, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
November 10, 2008

CUCAMONGA VALLEY WATER DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

Federal and State Grantor/ Pass-through Grantor/ Program Title	Program Identification Number	Federal Domestic Assistance Number	Federal Financial Assistance Expenditures
<u>U.S. Department of Homeland Security</u>			
Passed through Office of Emergency Services: Disaster Grants – Public Assistance	CP6323	97.036	\$ 587,058*
Pre-Disaster Mitigation	CP6423	97.047	48,436
Subtotal			<u>635,494</u>
<u>Bureau of Reclamation</u>			
Passed through Department of Water Resources: Water Reclamation and Reuse Program	10155	15.504	<u>14,554</u>
Subtotal			<u>14,554</u>
Total Federal Awards			<u>\$650,048</u>

* Major program.

See accompanying notes to schedule of expenditures of federal awards.

CUCAMONGA VALLEY WATER DISTRICT

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred (and related awards received) by the Cucamonga Valley Water District ("District") that are reimbursable under federal programs of federal agencies providing financial assistance. For purposes of this schedule, financial assistance includes federal financial assistance received directly from a federal agency and federal funds received indirectly by the District from non-federal entities. Only the portion of program expenditures reimbursable with such federal funds are reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized and the portion of program expenditures that were funded with other state, local or other non-federal funds are excluded from the accompanying schedule.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recognized when the District becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported include any property or equipment acquisitions incurred under the federal or selected state program, as required by these agencies.

CUCAMONGA VALLEY WATER DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

(A) Summary of Auditors' Results

1. An unqualified report was issued by the auditors on the financial statements of the auditee.
2. There were no material weaknesses in internal control over financial reporting based upon our audit of the financial statements of the auditee. Other findings are reported in the accompanying summary schedule of current audit findings in section (B) below.
3. The audit disclosed no noncompliance which is material to the financial statements of the auditee other than the matter indicated as (08-2) below.
4. There were no material weaknesses or significant deficiencies in internal control over major programs of the auditee.
5. An unqualified report was issued by the auditors on compliance for major programs.
6. The audit disclosed no audit findings required by the auditors to be reported under paragraph .510(a) of OMB Circular A-133.
7. The major program of the auditee was the U.S. Department of Homeland Security – Disaster Grants - Public Assistance, CFDA No. 97.036.
8. The dollar threshold used to distinguish Type A and Type B programs was \$300,000.
9. The auditee did not meet the criteria to be classified as a low risk auditee for the year ended June 30, 2008, for purposes of major program determination.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(08-1) Review of Capital Asset Listing

During our review of capital assets, we noticed that the a number of the District's older capital assets reflect cost data grouped by the fiscal year the cost was added without extensive detail as to the composition of the assets. Detail regarding the composition of a District's assets facilitates proper updating of the file for additions and deletions and promotes the effectiveness of periodic verification by District engineers (to identify unrecorded additions or deletions).

CUCAMONGA VALLEY WATER DISTRICT

Schedule of Findings and Questioned Costs

(Continued)

Recommendation

It is not unusual for water districts to maintain capital asset records in this fashion. However, for the reasons identified above, this is not best practice. In accordance with new standards of auditor communications, we identify this as an opportunity for the District to enhance its accounting control over these records. Accordingly, we recommend that the District consider engaging its district engineers or a contracted appraisal firm to estimate the original cost of assets in sufficient detail to allow for easy updating and maintenance of the records.

(08-2) Investment Compliance

During our April 2008 testing of investment compliance, we noted that Cucamonga Valley Water District had invested 32.5% of its investment portfolio in money market funds. This is in excess of the 20% limitation indicated by California Government Code 53601-1(5) for a local government's combined investment in money market funds and other mutual funds. This overage occurred because the investment guidelines issued by the California Debt and Investment Advisory Commission (CDIAC) of the State of California contained unclear and ambiguous language with regard to this issue. With the assistance of the District's auditors, the District was able to research a more technical reading of the Government Code section upon which the CDIAC guidelines were based in order to determine a more precise determination of the legal constraints applicable to money market funds. It should be noted that this excess investment in money market funds was a temporary condition that occurred during the fiscal year. As of year end, the District's investment in money market funds was in conformity with the limitations of the Government Code.

Recommendation

We recommend that the District limit its investment in money market funds so as to not exceed the 20% limitation provided by the Government Code.

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) at OMB Circular A-133

There are no findings or questioned costs required to be reported in accordance with paragraph .510(a) of OMB Circular A-133.

CUCAMONGA VALLEY WATER DISTRICT

Summary Schedule of Prior Audit Findings

Year ended June 30, 2008

(07-1) Controls Over Payroll

This finding was resolved for the year ended June 30, 2008.

(07-2) Review of Capital Asset Listing

This finding was repeated as (08-1) for the year ended June 30, 2008.